■ BOESKY AND THE DECLINE OF ETHICS • PRODUCTS OF THE YEAR ■

FORTUNE

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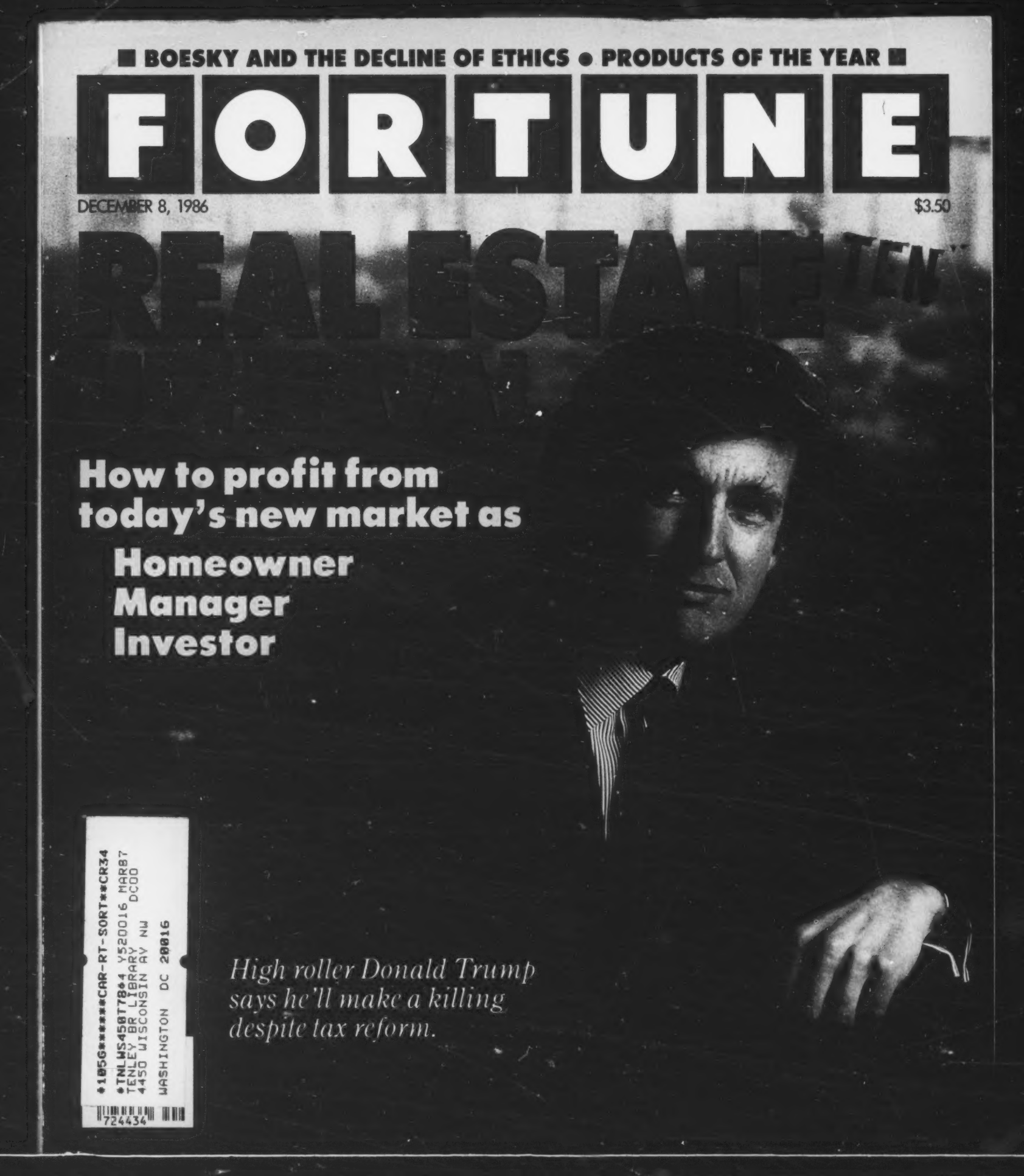
REAL ESTATE TEN

How to profit from today's new market as

Homeowner
Manager
Investor



High roller Donald Trump says he'll make a killing despite tax reform.

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DECEMBER 8, 1986 VOL. 114, NO. 13

FORTUNE

Michele Singer photographed New York's 40-year-old Donald Trump at the new Trump Parc condominium overlooking Central Park. Trump and other real estate barons are finding silver linings in the new tax law. *See page 27.*

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LETTERS

Philanthropy on Your Own Time

Re "The Joys of Closeup Philanthropy" (On Your Own Time, September 1): Having spent some time in Mali in 1984 evaluating gold deposits for Anaconda, I can relate to the concern for the hardworking and water-poor people of that nation expressed by the two Bear Stearns executive vice presidents mentioned in the article. It was obvious during our travels across Mali that for a relatively small investment wells could be drilled and people fed. It is good to know that Americans recognize this need and are taking action to meet it.

There is a perception that some members of the business community are entirely engrossed with "making a bunch" and with their own personal enjoyment. I was pleased with your description of these unselfish activities in behalf of others.

G. ARTHUR BARBER
Dosecc Inc.
Washington

Corrections

"Your Coming State Tax Hike" (October 13) misstated the basis for the tax calculations Arthur Andersen & Co. did for FORTUNE. *The tax rates shown in the table assumed the states that have previously updated their laws to reflect changes in the federal tax code would do so again.*

An item in the October 27 Companies to Watch column on Carrington Laboratories referred to the author of an internal memorandum as a Bear Stearns security analyst. The memo was written by a registered representative. Bear Stearns says the memo does not represent the views of the firm. F

Address letters to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Letters may be edited for purposes of clarity or space.

INVESTOR'S SNAPSHOTS

EXPLANATORY NOTES

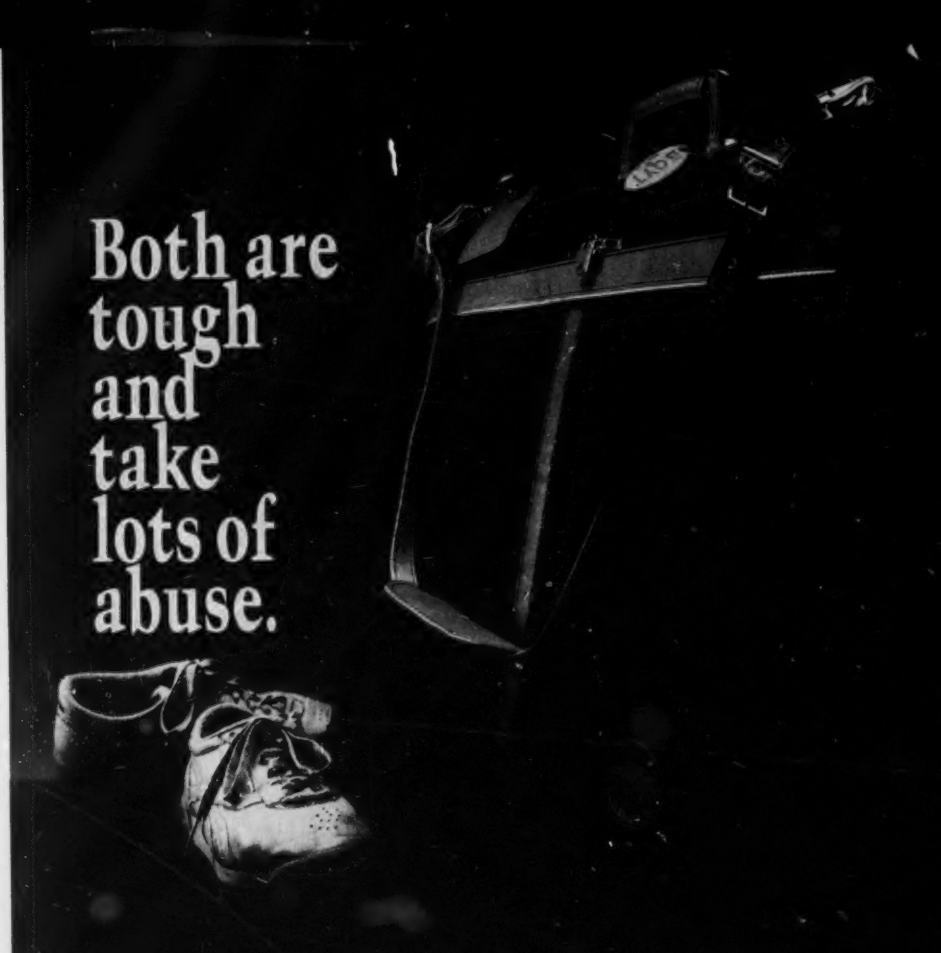
SALES in the Investor's Snapshots elsewhere in the magazine exclude excise taxes. Instead of sales, assets are shown for commercial banking companies, diversified financial companies, life insurance companies, and utilities, and operating revenues for transportation companies.

NET PROFIT includes any extraordinary items. Where applicable, sales and net profit for past quarters are restated to reflect mergers, acquisitions, or divestitures.

RETURN ON COMMON STOCKHOLDERS' EQUITY is calculated for the latest four quarters after subtracting dividends paid on preferred stock from net income. The five-year average is based on the last five full fiscal years.

PRICE/EARNINGS MULTIPLE is based on earnings per share for the latest four quarters.

TOTAL RETURN TO INVESTORS includes stock price changes and assumes dividends are reinvested on the date paid.



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PROTECTIONISM IN DISGUISE

Democrats will use their dominance in Congress to pass crowd-pleasing, "pro-competitive" laws that are little more than old-fashioned trade barriers.

■ *by Ann Reilly Dowd*

THE STUNNING Democratic takeover of the U.S. Senate catapults trade to the top of the 100th Congress's economic policy agenda. Senator Robert C. Byrd, who seemed likely to resume his old post as majority leader, and Senator Lloyd M. Bentsen, the next Finance Committee chairman, have both promised to pass trade legislation in 1987, setting the stage for a firecracker confrontation between President Reagan and the new Congress. Declares Democratic Congressman Richard Gephardt of Missouri, a presidential hopeful: "The Administration feels there is no role for government in improving the nation's international competitiveness. Democrats feel government's role is essential."

The Administration's top trade priority next year will be to pry open foreign markets through a new round of talks under the General Agreement on Tariffs and Trade (GATT). Reagan has also appointed a Cabinet-level task force to explore ways to boost America's competitiveness. But Administration spokesmen warn against overestimating what Washington can or should do. Instead, they have begun pointing fingers at big business, which Deputy Treasury Secretary Richard Darman recently called "bloated, risk-averse, inefficient, and unimaginative."

In stark contrast, the Democrats are bent on using government to right the trade imbalance. At the top of their agenda is legislation that would push the President to close U.S. markets to countries that dump or subsidize imports or that maintain unfair barriers to American exports. The Democrats also aim to bolster competitiveness by spending more on education, retraining programs, and research and development.

Spurring Congress to action is America's enormous and persistent trade deficit—about $170 billion this year. Although the dollar's drop contributed to a $5.4-billion decline in imports from July to September, even optimists say the deficit will not go below $135 billion next year, or much below $100 billion before 1990. Deficits have spread beyond the nation's rust belt industries to agriculture and telecommunications equipment, long among America's most robust exporters. Today's big exporters—industries such as aircraft and plastics—have seen their surpluses erode. (See chart.)

This dismal reality has splintered the traditional alliance of agriculture and big business that made up Washington's free-trade bloc. Pummeled by a worldwide glut of agricultural products, many U.S. farmers are calling for greater subsidies and more federal help in attacking foreign markets. Others are demanding outright protection. The produc-

REPORTER ASSOCIATE *Lucretia Marmon*

The Waning of U.S. Trade

Democrats pushing for new legislation are likely to invoke the swelling deficits and shrinking surpluses in key industries.

THE BIGGEST TRADE DEFICITS

	1985 IN BILLIONS	PERCENT CHANGE 1980-85
Motor vehicles	$39.8	+216%
Apparel, accessories	$15.3	+173%
Telecommunications, sound equipment	$14.4	+336%
Miscellaneous consumer goods	$10.3	+506%
Iron, steel	$9.9	+98%

THE BIGGEST TRADE SURPLUSES

	1985 IN BILLIONS	PERCENT CHANGE 1980-85
Aircraft, transportation equipment	$11.2	−3%
Office machines, computers	$3.8	−55%
Professional, scientific instruments	$3.4	−15%
Specialized industrial machinery	$2.2	−255%
Synthetic resins, plastics	$2.1	−52%

ILLUSTRATION BY SEIDEL MARKEN

ers of ethanol, a corn-based fuel, won a 60-cent-per-gallon duty on a competing, imported fuel blend last year. Big business too is flirting with protectionism. Chevron Corp., the third-largest U.S. petroleum company, recently called for a government-supported minimum price for oil. Says Calman J. Cohen, vice president of the Emergency Committee for American Trade, which represents many U.S. multinationals: "In the past American business had so many opportunities that it didn't turn to government for help. Now it can't afford not to."

Democrats see the trade issue as a winner. It lets them appeal to a broad spectrum of business and labor leaders who are impatient with what they consider the Administration's lack of aggressiveness on trade. Bentsen, a pro-business moderate who has turned increasingly protectionist, is eager for trade legislation. "I've been a free trader all my life," he wrote last year. "But it's time for all of us to reassess this basic belief."

Some Democratic leaders would opt for straightforward protectionist barriers, like the quotas called for in last year's textile bill, which Reagan vetoed. South Carolina Senator Ernest "Fritz" Hollings, for example, will probably use his influence as the new Commerce Committee chairman to reintroduce the bill. But most Democrats are leery of import barriers. The idea played poorly in Walter Mondale's presidential campaign, and party strategists believe voters are skeptical of outright protectionist solutions, fearing that they will trigger foreign retaliation, boost inflation, and cost jobs.

MOST DEMOCRATS—and many Republicans—will push instead for comprehensive legislation promising fair trade, open markets, and increased U.S. competitiveness. Rather than slapping on direct import restrictions, Congress will probably tighten up the definition of unfair trade practices and severely restrict the President's discretion in dealing with them. Economist C. Fred Bergsten, who heads the Institute for International Economics, calls this approach "process protectionism" and argues that it is even more dangerous than outright protectionist legislation because it's more subtle, and thus tougher to fight on Capitol Hill.

This year's House bill—which stalled in the Senate—offers many examples of protectionism in its fancy new guise. The most flagrant is a Gephardt amendment that would require the President to reach an agreement with countries such as Japan, West Germany, and Taiwan to reduce their trade surpluses with the U.S. by 10% annually over four years. If they failed to achieve these hefty reductions, the President would be pressured to restrain imports. Gephardt predicts that some variation of his amendment will be included in legislation next year. Another House provision that could pop up again would subject countries to U.S. retaliation if they prevented workers from organizing or did not adopt American health and safety standards. That could trigger import restrictions against most Eastern bloc and developing countries, including Taiwan and Korea.

Congress will probably produce a bill with subtle protectionist features. The Administration's strategy, says Trade Representative Clayton Yeutter, will be "veto, veto, veto."

Democrats will try to make it easier for industries to win relief under the so-called escape clause provision in trade law, designed to help those hard hit by low-priced imports. Senator Byrd will be pushing legislation that would force swifter action in cases where an industry requests protection on the ground that its woes threaten national security. The machine-tool industry waited three years before Reagan decided to seek voluntary restraints on imports. Says Byrd, who hails from steel-producing West Virginia: "I want the Administration to enforce the trade laws. But if not, we may need additional legislation."

Many economists believe Congress's focus on trade law reform is misplaced and potentially dangerous. Even if the reforms open up foreign markets, as proponents promise, that will make only a minor dent in the U.S. trade deficit—no more than $20 billion, according to economist Bergsten. Meanwhile, if legislation forces the U.S. to shut out some products, American consumers will face much higher prices. Former deputy U.S. trade negotiator Harald Malmgren, now a consultant, maintains that trade legislation will do little to increase U.S. competitiveness. He observes that the companies that clamor for protection still must contend with foreign rivals opening plants in their own backyards, as Nissan, Honda, and Toyota already have done. Pointing to the proposed Japanese acquisitions of Fairchild Semiconductor Corp. and Wall Street bond trader Aubrey C. Lanston, Malmgren warns that raising barriers could touch off a Japanese "takeover binge" in the U.S.

What then is the cure? The Administration insists—and many economists roundly agree—that the best solution is to cut the budget deficit. That would lessen overall demand for credit in the U.S., helping interest rates to decline. Lower interest rates would reduce American companies' cost of capital, making them more competitive, and would also help force the dollar down further.

Congress, however, is only giving lip service to budget deficit reduction. As long as Reagan continues his stiff opposition to tax increases, Democrats will not propose any; and the new Congress is more likely to increase spending than to cut it. The targets set out in the Gramm-Rudman-Hollings deficit reduction law look more and more chimerical. Says William A. Niskanen, chairman of the Cato Institute, a conservative Washington think tank: "Gramm-Rudman will have blown up by this time next year."

Other solutions to the nation's competitiveness problem are a long way from realization. Many economists and business leaders think that increased tax incentives for capital investment and research and development would help. But the new tax law scales back such incentives, and few experts think a major policy reversal is possible next year. Others talk about easing controls on technology exports. But the Administration's preoccupation with national security leaks has torpedoed similar ideas in the past, and probably would again. Some Senators advocate helping Latin America, once a major importer of U.S. goods, boost growth. But Congress and the Administration disagree over how this could be achieved.

The odds are that the 100th Congress will produce an omnibus trade bill, with many subtle protectionist features. The Administration's strategy, says U.S. Trade Representative Clayton Yeutter, will be "veto, veto, veto."

The game then will come down to whether Congress can override the President. The number of lawmakers favoring more rigid trade legislation suggests that Congress can. But history says it can't. Congress has never before passed a major trade bill over a President's veto. Business and consumers should hope that history repeats itself. ■